

## The Outlook: Feb. 5, 2018

### *What It Means*

If we are to succeed, and not fail, as investors, there are two things we must know:

- We must understand the nature of the market.
- We must understand the nature of the operating companies we own.

We can spend a lot of time not caring too much about either one: with only a vague notion of how the market works, and with only a general notion of the underlying nature of what we actually own. In fact, we can spend most weeks, months and even years in that somewhat fuzzy state of awareness, and not see much problem with it—because if we were to take a yardstick to the market’s calendar we would see that around 95% of the time, the market is either muddling through ups and downs without frightening us, but going nowhere in particular; or it’s rising nicely, and try as we might, we can never get too worried about that.

But it’s those other times which matter. It is the small fraction of days and weeks when the market does it best to terrify us which matter: when a market having a nightmare taps us on the shoulder, politely, and asks: “Do you really understand what you’ve done with your money?”

Yes . . . when that long finger, shrouded in black, reaches out to tap our shoulder (we’re overdoing it here, but the first antidote to fear is a grin) it is exceptionally helpful to be able to answer those 2 questions with, “Yup. We know them both: the market, and our companies.”

### The Nature of the Market

In a nutshell, we must grasp that the market is a great big crowd of normal people. Some are clever, some are foolish, most are in between. Because it’s our money at stake, everyone in the crowd cares a lot about the market’s behavior, and for exactly the same reason, everyone in the crowd is more strongly affected by fear than anything else. And finally—being normal people—when the crowd is infected with fear, it’s very hard for it to think straight. When frightened, a few members of the crowd think straight, but the crowd as a whole never does.

So when, today, the headlines screamed “Biggest Point Drop in History!”, and when, for the past few days capped by today, we investors pondered the wreckage of our asset values, we would be rare individuals, indeed, if we did not feel the stab of fear which goes along with the thought, “What if the market knows something we don’t know? What if this turns out to be the beginning of something awful?”

The first half of the antidote is “understanding the nature of the market.” That big crowd consists of an ocean of long-term investors (more or less) whose general plan is to own companies and be patient with them; but it also consists of a raging river of daily speculators, whose business consists of jumping on rolling bandwagons, then instantly poisoning themselves to jump off again. That river drives market prices wherever it wants to go, at the moment—and no amount of patience, understanding or determination among long-term investors can stop it. It stops itself when the fast-reflex crowd begins jumping off again, because it senses it has driven prices too far below reality to stay there.

## The Nature of Our Operating Companies

This section can be shorter. The whole reason Outlook Capital Management insists upon investing in individual companies' stocks, and never in the galaxy of mutual funds, is so that we investors can understand what we own.

Today's market trashed every company under the sun, pretty much. "Fearsome losses" was a phrase scattered all over the countless stories about today. Now, the emotional meaning of "fearsome losses" to normal people is: "Something is seriously wrong, and we are in big trouble." But the meaning of "fearsome losses," to investors who have been paying fairly close attention to what is actually happening within the companies they own, hence really understand them, is "No. Nothing is wrong. This is simply the market behaving normally. It is not our companies' operations falling apart."

As Outlook has remarked often and in detail, these past months and years, the remarkable thing about our real, operating businesses is their extreme financial strength; their careful, competent management; and their solid path toward future growth. Those statements are true of Caterpillar, Cummins, Conoco, Lockheed, Micron, Schlumberger, Shell and all the rest. It is not possible to be thinking clearly, today, and come to any other conclusion about the nature of their business operations. When the market shouts, "They are in big trouble," the market is not just wrong, it is silly. But it strikes Outlook as very difficult indeed for investors to make that judgment amidst the screaming headlines, unless they've been helped to actually understand how things are going inside the businesses they own.

## High Time

It was "high time for a correction," was mentioned almost as often as "fearsome losses," today. The definition of "correction" is a 10% drop in market value. It would be a good idea to pay no attention to the countless experts who will be informing us of each day's progress toward or beyond that 10%, measured in decimal points of course. The market is "trying on fear for size, to see if it might fit, this time." That's its nature . . . especially after a prolonged period of good cheer. Neither Outlook nor anyone else has the faintest idea how many percentage points down it will go, nor how long it will take to get there. But we have a perfectly clear idea of what really matters: the nature of our operating companies and the nature of the market. The right question today is not "How badly will we get hurt?" It is, "How can we take advantage of this?" Every one of our companies are good values today, but the energy and commodity specialists took the worst beatings, and deserve more of our money. We'll be buying more.

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